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Consumer Bankers Association
Home Equity Lending Telephone Survey

Conducted by the

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Telephone Survey on Home Equity Lending

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On behalf of the Consumer Bankers Association, the Center for Financial Services Study contacted 30 large banks, savings and loan associations and credit unions on January 12, 13, 14, or 15th of 1987. These 30 financial institutions were selected by the CBA because of their involvement in home equity lending. Their headquarters were located in 18 states plus one institution in Canada. Each of these institutions were sent a written questionnaire (Attachment A) by the CBA which was the basis of our telephone survey. Their were 24 useable responses. Because of illness, vacations, scheduling problems we were unable to get complete data from the other six institutions.

The statistics (mean, median, range and standard deviations) for each question are reported on Attachment B. For reporting purposes we have used the median figure as our measure of central tendency. The median is not distorted by extreme responses (outlyers) as the mean is.

The median financial institution had $123,000,000 in approved home equity lending lines. The least involvement was $8,800,000 by a financial institution that has only had a home equity lending program since the middle of 1985. In contrast, one institution had $2 billion in approved home equity lines. Approximately 55 percent (or a median of $68,000,000) of approved lines had been drawn down by the consumer.

The median number of home equity accounts was 2,442. The institution that begun home equity loans in the middle of 1985 had 104 accounts. One institution had 20,500 accounts outstanding.

For the median institution, the home equity lines represented 32 percent of their total consumer loans outstanding (excluding unsecured credit cards). For the institution with the least involvement the home equity lending represented only 4 percent of their consumer loans (exluding unsecured credit cards). At the other extreme was our institution that had 95 percent of its total non-credit card consumer loan in home equity lines.

In most cases (70 percent) the home equity lending was open-ended. The loans were closed-ended in 30 percent of the lending. The most frequent method of accessing the home equity lines by the borrower was by a checking account. Other methods (such as ATM, telephone banking, credit card) were infrequently used.

Ninety-two percent of all home equity loans were variable rate. Only 8 percent of the home equity loans were fixed rate. Fifty-five percent of the institutions that had variable rate loans used prime bank lending rate

(usually The Wall Street Journal quoted rate) as an index rate and 27 percent used Treasury Bill rates (evenly split among 3-month, 6-month and 52 week Treasury's) as an index rate. Four percent of the institutions used both the Treasury rate and prime rate in determining the index rate, and 9 percent of the institutions used management discretion to establish the variable rate. Finally, 4 percent of the financial institutions used the 30-day CD rate to establish their index. The median spread over the index rate was 178 basis points with a range from a minimum of 50 basis points to a maximum of 450 basis points.

Most of the variable rate loans did not have caps to the maximum interest rate. Only 29 percent of the variable rate loans had lifetime caps. The medium lifetime cap was 650 basis points, but the range of caps was from a minimum of 500 basis points to a maximum of 2,100 basis points. Fifteen percent of the variable rate loans had adjustment-period caps. The median adjustment-period cap was 375 basis points and the range was from 200 basis points to 900 basis points.

Over seventy percent of the home equity loan applications are approved. In contrast, only 55 percent of other consumer loans (excluding both home equity loans and unsecured credit card applications) are approved.

The delinquency rate of home equity loans is significantly below all other consumer loans (excluding unsecured credit card loans). The delinquency rate of home equity loans was .74 percent as compared to 1.95 percent of other consumer loans (excluding unsecured credit cards).

The survey institutions found that newspaper advertising and direct mail were the most important marketing activities in generating home equity loans. Statement stuffers and brochures were found to be somewhat important. Magazine advertising and in-house telemarketing were found to be less important methods of increasing leading activities. Some institutions mentioned realtor and bank referrals as well as radio and billboard advertising. In addition, some financial institutions tried incentive programs for their branch managers and loan officers. A few institutions have tried innovative programs, such as "student loan/parent night seminar," to generate activity.

The most prevalent incentive that financial institutions are currently using to entice new customers is a reduced or zero closing fee program. Thirty-eight percent of all institutions had reduced (9 percent) or zero closing fee programs (29 percent). Eight percent of the financial institutions had special interest rates for their customers and another eight percent had reduced or low fixed closing costs for their prime customers. Only eight percent of the financial institutions used teaser (low rates for a period of time) rates to attract new customers. Other incentives used by financial institutions include the following: free checking accounts, free credit card, employee rates at prime, and tax assessments rather than an appraisal.

In summary, this telephone survey found that the typical home equity loan was a variable rate loan indexed based on prime bank lending rate or a treasury bill rate. The median spread over the index rate was 178 basis points. The average borrower has drawn down 55 percent of the approved line of credit and the delinquency rate of home equity loans was only .75 percent.

Almost all loans were accessible by check. Direct mail and newspaper were found to be the most important advertising approach. The most frequently used incentive to attract new home equity loan customers were reduced or zero closing fees.

The telephone survey should be followed-up with a more extensive written survey to refine, confirm and extend these findings. This written survey should be sent to a broadly based sample of financial institutions.

CBA HOME EQUITY LENDING
TELEPHONE SURVEY
For Response on January 12-13, 1987

You will be telephoned by a representative of CBA on January 12th or 13th, with a request for preliminary information on your home equity lending activities.

The questions, listed below to aid you in advance preparation, are deliberately brief in anticipation of a more detailed, written survey to follow.

Please base your responses on your institution's 3rd quarter data for 1986 i.e., the quarter beginning July 1 and ending September 30, 1986.

The results of this telephone survey of the top 30 home equity lenders will be announced at CBA's Home Equity Lending Conference, February 1-3, in Atlanta.

1. What is the percentage of your institution's home equity lending activities, expressed as a percent of total consumer loans outstanding (excluding unsecured credit cards)?

_____% of total consumer loans

2. What percentage of all home equity lending activity is close-ended and what percentage is open-ended?

_____% Closed-ended

_____% Open-ended

3. How do your home equity borrowers most commonly gain access to their credit? Please rate the following according to this usage scale: 1 = Never Use; 2 = Sometimes Use; 3 = Use Very Often.

_____ Credit Cards

_____ Checking Accounts

_____ ATM's

_____ Telephone Banking

_____ Other (please specify _____)

4. What are the characteristics of your open-ended home equity loans?

$_____ total amount of approved lines of credit

$_____ total funds drawn down by customers

$_____ total number of open-ended home equity loans accounts

5. If offered, what are the characteristics of your variable rate home equity loans, in terms of the index, and the point spread above the index?

_____ check here if not offered

_____ rate used as index (90-day T-bill, etc.)

_____ number of basis points added to index to determine variable home equity loan rate

6. If you have caps on the variable rate, how many basis points are they above the initial loan rate for each adjustment? For the life of the loan?

_____ maximum increase in points per adjustment

_____ maximum increase in points for life of loan

7. How do your approvals on home equity applications compare to approvals on all other consumer loans (excluding home equity loans and unsecured credit cards)? The approval rate is all applications approved divided by all applications received.

_____% approval rate on all home equity loans, both closed-ended and open-ended.

_____% approval rate on all other consumer loans, excluding home equity and unsecured credit cards.

8. If offered, what special reduced rates and reduced fees for what products are available to your home equity borrowers? _____

_____

_____

9. Regarding accounts delinquent past 30 days, how do your home equity accounts compare to the rest of your consumer loan portfolio? What is the percentage of all home equity loans which are delinquent by 30 days or more? What is the percentage of all other consumer loans (excluding home equity loans and unsecured credit cards) which are delinquent by 30 days or more?

_____% home equity delinquencies

_____% all other delinquencies

10. What marketing activities are most important in generating home equity lending activity? Please use the following scale: 1 = Not Important; 2 = Somewhat Important; 3 = Very Important

_____ newspaper advertising

_____ direct mail

_____ statement stuffers

_____ magazine advertising

_____ brochures

_____ in-house telemarketing

_____ other (specify)_____

Attachment B
CBA Telephone Survey Statistics
January 12-14, 1987

1. What is the percentage of your institution's home equity lending activities, expressed as a percent of total consumer loans outstanding (excluding unsecured credit cards)?

_____% of total consumer loans

Median 32%
Mean 31%
Range 4% to 95%
Standard deviation 29.4%

2. What percentage of all home equity lending activity is close-ended and what percentage is open-ended?

_____% Closed-ended

Median 30%
Mean 43.8%
Range 0 to 100%
Standard deviation 34.6%

_____% Open-ended

Median 70%
Mean 58.7%
Range 0 to 100%
Standard deviation 33.2%

3. How do your home equity borrowers most commonly gain access to their credit? Please rate the following according to this usage scale: 1 = Never Use; 2 = Sometimes Use; 3 = Use Very Often.

1.05 Credit Cards
2.95 Checking Accounts
1.08 ATM's
1.08 Telephone Banking
_____ Other (please specify)

Account Drafts
Direct withdrawals from other branches
Direct loan
Cashier's check
Teller

4. What are the characteristics of your open-ended home equity loans?

$_____ total amount of approved lines of credit	$_____ total funds drawn down by customers
Median $123,000,000	Median $68,000,000
Mean $282,000,000	Mean $156,000,000
Range $8,800,000 to 2,000,000,000	Range $3,336,344 to 1,200,000,000
Standard deviation $476,000,000	Standard deviation $277,000,000

_____ total number of open-ended home equity loan accounts

Median 2442
Mean 4355
Range 104 to 20,500
Standard deviation 5,685

5. If offered, what are the characteristics of your variable rate home equity loans, in terms of the index, and the point spread above the index?

_____ check here if not offered

92% rate used as index (90-day T-bill, etc.)

55% Prime Bank Lending Rate
9% 3-month Treasury's
9% 6-month Treasury's
9% 1-year Treasury's
4% 6-month Treasury's and Prime
5% 30-day CD
9% Management discretion

_____ number of basis points added to index to determine variable home equity loan rate

Median 178
Mean 224
Range 5 to 450
Standard deviation 115

6. If you have caps on the variable rate, how many basis points are they above the initial loan rate for each adjustment? For the life of the loan?

15% maximum increase in points per adjustment		29% maximum increase in points for life of loan	
Median	375	Median	650
Mean	433	Mean	1267
Range	200 to 900	Range	500 to 2100
Standard deviation	404	Standard deviation	812

7. How do your approvals on home equity applications compare to approvals on all other consumer loans (excluding home equity loans and unsecured credit cards)? The approval rate is all applications approved divided by all applications received.

____% approval rate on all home equity loans, both closed-ended and open-ended.		____% approval rate on all other consumer loans, excluding home equity and unsecured credit cards.	
Median	70%	Median	55%
Mean	68%	Mean	53%
Range	9 to 98%	Range	6% to 80%
Standard deviation	21%	Standard deviation	18%

8. If offered, what special reduced rates and reduced fees for what products are available to your home equity borrowers? _____

25% No closing fees
8% Fixed or reduced closing fees
5% Lower fees for customers and prime customers
4% No fees for switch of unsecured lines to secured lines
8% Lower rates for customers
4% Free checking
4% Free credit card
4% Employee rates at prime
4% Prime for first 12 months
4% Teaser rate for one year
4% FHLMC service/seller
4% Tax assessment in lieu of appraisal

9. Regarding accounts delinquent past 30 days, how do your home equity accounts compare to the rest of your consumer loan portfolio? What is the percentage of all home equity loans which are delinquent by 30 days or more? What is the percentage of all other consumer loans (excluding home equity loans and unsecured credit cards) which are delinquent by 30 days or more?

_____% home equity delinquencies		_____% all other delinquencies	
Median	.74%	Median	1.95%
Mean	1.28%	Mean	2.35%
Range	0 to 4.30%	Range	.80% to 6.40%
Standard deviation	1.19%	Standard deviation	1.40%

10. What marketing activities are most important in generating home equity lending activity. Please use the following scale: 1 = Not Important; 2 = Somewhat Important; 3 = Very Important.

2.75	newspaper advertising
2.50	direct mail
2.00	statement stuffers
1.25	magazine advertising
2.07	brochures
1.35	in-house telemarketing
_____	others

Radio
Billboard
One-on-one
Banks & Realtor Referrals
Incentive Program for Branch Managers
Student Loan/Parent Night